



# Part E:

Annual Financial Statements

## REPORT OF THE ACCOUNTING OFFICER - FOR THE YEAR ENDED 31 MARCH 2005

Report by the Accounting Officer to the Executive Authority and Parliament/Provincial Legislature of the Republic of South Africa.

### 1 General review of the state of financial affairs

- Important policy decisions and strategic issues facing the department

The overall focus of the Department is to implement the policies and legislation that have been introduced since 1994.

The Department of Water Affairs and Forestry seeks to ensure that the country has reliable supplies of water, for sustainable social and economic development. It encourages water conservation and manages demand. It also manages and expands the national water resource infrastructure where necessary - a key strategic issue is to determine and implement the most appropriate form of organization for the management and development of this infrastructure.

To address poverty, the Department promotes the provision by municipalities of infrastructure to reduce ensure access to basic water supply and sanitation for all. It also regulates and supports the provision of efficient and sustainable water services at municipal level and still runs water services operations that are being transferred to local government.

In forestry, the Department manages a reduced estate of plantations and indigenous forests and continues to transfer direct management to appropriate organizations in both public and private sector. The restructuring of the remaining plantations run by the Department will emphasise benefits to neighboring communities.

### Water resources management

The National Water Act (36 of 1998) replaced previous legislation with an equitable system of administrative authorisations to use water, and Government became the public trustee of the nation's water resources. The Department is responsible for administering all aspects of the new Act, and for the development and implementation of related policies, strategies and regulatory instruments. It is also responsible for planning, developing, operating and maintaining the water resources management infrastructure owned by the state, and for overseeing the activities of all water management institutions. This role will change over time, as 19 new regional water management institutions - catchment management agencies - are established. The creation of a national water resource infrastructure agency is also being considered to manage existing national infrastructure and to develop new infrastructure.

### Water services

During the period 1994 to 2003/04 the Department made progress in providing basic levels of water service. More than 10 million people were served with clean water and four million people house holds with basic sanitation services.

In 2004/05, the Department continued to move from its role of construction and operation of water and sanitation services to its regulatory role.

This is indicated by the reduction in the budget allocation for its Capex-programme from an all time high during 03/04 of R 1505,371 million (including donor funds) to R 587,018 million for 2004/05, reducing even further to R388, 873 million during 2005/06 and to R140, 963 million for 2006/07. This function has been taken over by Municipal Infrastructure Grant (MIG) programme

On Operation and Maintenance, 95 schemes out of a targeted total of 317 have been transferred out of DWAF, representing an annual budget amount of R124, 370 million.

During 2004/05 the sector leadership role was taken forward through programmes including free basic water, Masibambane, participation

in the MIG programme and other support to Local Government. Many Water Service Authorities (WSA's) benefited from DWAF support through advice/support services from the regional offices.

### Forestry

The Department promotes the sustainable management of South Africa's indigenous and commercial forest resources.

It aims to ensure that commercial plantations are regulated and managed in a sustainable manner to promote investment, employment, competition and black empowerment, as well as rural development. It seeks to ensure that there is an effective system to monitor, regulate and manage the protection and use of South Africa's indigenous state forests. The 1996 White Paper on Sustainable Forest Development focused on the transformation of the forest sector to serve the needs of South Africa and its people. The National Forests Act (84 of 1998) and the National Veld and Forest Fires Act (101 of 1998), which followed, impact on the Department's work, and on all players in the sector. A great deal of attention has been focused on the restructuring of the forests and plantations run by the Department. The process of disposing of the category A or large and economically viable plantations is largely complete. The disposal included substantial elements of black economic empowerment.

- **Significant events that have taken place during the year**

The programme to transfer the water services works that it currently owns and/ or operates to the relevant water services authorities has made good progress. In terms of the programme which is included in the Division of Revenue Act, all transfers should be effected by 31 March 2006 with all conditional grants (subsidies) phased out by March 2012 at which stage the conditional grants will be incorporated into the equitable share allocations to local government. By the close of the financial year, transfers had been made to 25 of the 55 Municipalities affected with assets transferred valued at R1,250 million.

In the area of sanitation, the eradication of the bucket system was given a boost when, following a proposal by DWAF, additional ring-fenced funds amounting to R1,2 billion were included in the MIG for a three year programme commencing in 2005/06.

The strategic Framework for Water Services (SFWS), approved by Cabinet in September 2003, identified the need for institutional reform to ensure effective, efficient and sustainable delivery for water services to meet sector targets. Progress is being made with review of the Water Services Act.

During 2004/05 funding of R400 million for the Masibambane (MSB) Water Services Sector Programme Phase 2 was agreed with the EU. The programme continues a sector wide approach towards meeting targets in the Strategic Framework for Water Services.

In the area of water resources, the publication of the first edition of the National Water Resources Strategy marked a new era for water resources management in South Africa. The subsidy policy for the support to resource poor farmers was approved and national guidelines were adopted for integrated government support with regard to agricultural water use.

In forestry, the Minister initiated the process to develop a Forestry Charter for Broad Based Black Economic Empowerment. This is expected to be completed by the end of 2005.

- **Comment on major projects undertaken or completed during the year**

During the year, the Nandoni Dam in Limpopo was completed and work began on the raising of Flag Boshielo Dam and construction of the Berg River dam as well as the planning and preparation for the Vaal River Eastern System Augmentation and the Olifants River Development Project Phase 2.

- **Spending trends**

- **Reasons for under/(over) spending:**

Please see notes to the Appropriation Statement.

**Programme 1: Administration:  
Underspending R16,251 million.**

*Impact on programmes and service delivery:*

There should be no impact on service delivery.

*Actions taken to prevent recurrence:*

The saving is due to delays in the transfer of staff to municipalities due to protracted negotiations with receiving municipalities; funds will be rolled-over to the 2005/06 year.

**Programme 2: Water Resource Management:  
Underspending: R29,913 million.**

*Impact on programmes and service delivery:*

There should be no impact on service delivery.

*Actions taken to prevent recurrence:*

The Bohlabela Municipality responsible for this emergency project was not able to make sufficient progress in the short time between the allocation of funds and the end of the financial year to enable the Department to transfer the funds to them. Contracts were concluded and orders placed, but the deliveries and/or payments could not take place before 31 March 2005.

**Programme 3: Water Services:  
Underspending: R0,001 million.**

No impact on service delivery.

**Programme 4: Forestry:  
Underspending R0,001 million.**

No impact on service delivery

## 2 Services rendered by the Department

### 2.1 The following services are rendered by the Department:

The main services rendered by the Department are related to ensuring the availability of water to all South Africans in an efficient, cost-effective and sustainable way and to manage and sustain our forests, using the best scientific practice in a participatory and sustainable manner. Details of these services are covered under the different Key Performance Areas within the programmes.

### 2.2 Tariff policy

#### Water Services:

Since the majority of water supply and sanitation services provided by the Department are basic services for the benefit of the poor, no tariffs are levied and the operations are funded through the Division of Revenue Act as a "grant in kind" to the respective municipalities. Where above basic service levels are provided, tariffs are tabulated by province and then by Water Service Authority or Municipal area in which the scheme is located. A data sheet has been prepared for each of the schemes, together with a locality map for each municipal area indicating the location of the scheme.

Where the department provides water to end users, (i.e. retail water), it acts as Water Service Provider for the Water Service agencies and submits tariffs to the Water Service Agencies for approval. These tariffs are either:

- (a) actual costs of supply, or
- (b) where actual costs cannot be determined, then the latest "WS tariffs in the absence of scheme specific tariffs", as approved by our Minister, are applied.

(Note that if Water Service Authorities do not enter into agreement with the Department, no tariff can be levied).

## Water Resources:

The policy framework for water resources is stipulated in chapter 5 of National Water Act, 1998. The raw water pricing strategy was established on 12 November 1999 by a notice in the Government Gazette. The first revision of the pricing strategy was initiated and will be completed during 2005/6 for implementation in April 2006.

### Water uses priced in terms of published strategy

The pricing strategy currently only covers the following three consumptive water uses:

- taking water from a water resource (underground or surface water);
- storing water. Abstraction from dam or recharged aquifer will constitute the use. The annual refilling of dams constructed to enhance property values or for recreation, and which are located in important water-courses, will constitute the use and will be based on an estimation of evaporation losses; and
- engaging in a stream flow reduction activity, such as afforestation.

The proposed pricing strategy for waste discharges and return flows will be dealt with in the revised pricing strategy

## 2.3 Free services

### Free basic water and sanitation services:

The Department renders support to municipalities to provide Free Basic Water (FBW) through Provincial Support Units. Implementation of Free Basic Water by Water Services Authorities are on track with 68.6% of the total population served, 58.6% of the poor population served, 75% of the population with infrastructure served and 95.3% of Water Services Authorities providing this service. While no national policy on Free Basic sanitation has been established,

individual municipalities have introduced this service with the total population served at 15.1%, the poor population served with 11.1%, population with access to infrastructure served at 13.3% and 7.6% of Water Services Authorities providing this service.

### Water resources

Schedule 1 of the National Water Act states the following uses need no authorisation and are thus not subject to pricing:

- water for reasonable domestic use;
- water for small gardening not for commercial purposes;
- the watering of animals within the grazing capacity of the land;
- storage and use of run-off water from a roof;
- water use in emergency situations;
- non-consumptive use of water for recreational purposes, under certain conditions; and
- discharging of water containing waste into a communal conduct controlled by another authorised person.

### Other services:

Various technical support services were provided to water institutions particularly, in poor rural communities. Water services were provided free in the absence of any financial cost recovery or local government subsidisation system.



## Inventories:

Inventories on hand at year end

	"Costing method used"	2003/04	2004/05
		R'000	R'000
Stores on hand	Average price	35 409	36 537
Equipment on hand (A-class accountable items)	per item type	85 017	175 044
Total		120 426	211 581

## 3 Capacity constraints

The department has lost certain skills due to financial incentives, uncertainty arising from restructuring, and other factors. Where the Department cannot recruit the necessary skills, secondment or employment of professional service providers has been undertaken. There remain significant challenges in filling posts in scarce occupational classes, such as engineering, hydrology, water resources planning. Meeting employment equity targets in these scarce occupational classes is particularly difficult.

It is important to note that the entire department is engaged in 'triple tasks', i.e.

- maintenance of old functions
- restructuring to move to the future
- operating some future functions

This places a heavy work load on many functional and support units which have not been able to undertake all the tasks required due to lack of systems and skilled people and have resorted to the use of professional service providers as a result.

## 4 Utilisation of donor funds

During 2004/05 financial year, the following donor fund expenditure took place in the Community Water Supply and Sanitation - Programme (CWSS):

European Union	R152.117 million
Ireland	R26.193 million
Netherlands	R2.787 million
Flanders	R 0.887 million
	R 181.989 million

- These funds were used to provide rural communities with basic level of water supply and sanitation services and for capacity building and support of municipalities. The availability of donor funds also enhanced the development of policies, strategies and frameworks.

## 5 Trading entities/public entities

### 5.1 Trading entities

The department operates the following trading entities:

Water trading account.

Equipment trading account.

These trading entities were established in terms of the old Exchequer Act, 1975 (Act 66 of 1975) and the Director-General is the Accounting Officer of both entities.

### 5.1.1 Water trading account

The aim of this trading account is to develop and implement catchment management plans and manage, operate and maintain government water schemes, regional bulk water supply and water services infrastructure.

### 5.1.2 Equipment trading account

#### Functions

The equipment trading account provides equipment for construction and maintenance of government water schemes.

## 5.2 Public entities

The following public entities report to the department.

### 5.2.1 Trans-Caledon Tunnel Authority (PFMA Schedule 2 Major Public Entity)

The Trans-Caledon Tunnel Authority (TCTA) was established in 1986 to undertake certain tasks emanating from the treaty on the Lesotho Highlands Water Project on behalf of the South African government. The project aims to augment water supply to the Vaal system and to generate hydroelectric power in Lesotho. The Authority was directed by the Department to fund all costs incurred in the water delivery component of the Lesotho Highlands Water Project, and to undertake financial risk management on behalf of South Africa.

Following revisions to the protocol for the implementation of the project, new governance arrangements have been introduced to improve operational efficiency. In terms of its revised establishment agreement, the Authority may be required to perform additional responsibilities in other areas. These need not be related to the Lesotho Highlands Water Project – the Department of Water Affairs and Forestry may require specific expertise on other projects as well. In accordance with this provision, the Authority has been tasked to assist Umgeni Water Board with the management of its

treasury function. It has also been tasked with the construction and raising of funds for the Berg River Project.

No grants are made to the Authority, as it is funded from income on tariffs levied on the sale of water and other loans. Where other parties benefit from services provided, the TCTA is empowered to recover the costs of such services.

### 5.2.2 Water Research Commission (PFMA National Public Entity Schedule 3 – Part A)

The Water Research Commission was established in terms of the Water Research Act, 1971 (Act 34 of 1971). Its terms of reference are to promote co-ordination, communication and co-operation in the field of water research, to establish water research needs and priorities from a national perspective, to fund research on a priority basis, and to promote the effective transfer, dissemination and application of research findings. The Commission plays an important role in developing high-level human resources in the sector.

No grants are made to the Commission as its work is funded by a levy on water users.

#### Accountability arrangements

In terms of the Public Financial Management Act, the Minister of Water Affairs and Forestry is responsible for the approval of the Commission's budget.

### 5.2.3 Water Boards (PFMA National Government Business Enterprises Schedule 3 – Part B)

#### Functions

The water boards were established as water service providers that report to the Minister of Water Affairs and Forestry. The primary function of these boards is bulk water service provision within their supply areas. They also manage other water services, and supply potable water at cost-effective prices and have been used by the Department as implementing agents for water services projects.

## The Water Boards

Albany Coast Water	Ikangala Water	Overberg Water
Amatola Water	Lepelle Northern Water	Pelladri Water
Bloem Water	Magalies Water	Rand Water
Botshelo Water	Mhlathuze Water	Sedibeng Water
Bushbuckridge Water	Namakwa Water	Umgeni Water

### Accountability arrangements

The water boards were established in terms of the Water Act, 1956 (Act 54 of 1956) and the Water Services Act, 1997 (Act 108 of 1997).

These boards are currently administered by the Water Services Act, 1997 (Act 108 of 1997). The Water Services Act requires water boards to submit Policy Statements, Business Plans and Annual Reports to the Minister of Water Affairs and Forestry, in terms of sections 39, 40 and 43 respectively.

In terms of this Act the Minister may direct a water board to amend its business plan or policy statement if aspects are not consistent with the Act or are deemed not to be in the best interests of the general population. The review of business plans takes place annually during which time each water board has to respond to issues raised in the Department's appraisal of their business plan.

In furtherance of the regulatory requirements, the Department monitors governance of water boards. The Act requires the Minister to consider the need for representation of Water Services Authorities, other interest groups and expertise required on the Board when appointing members to the Board. The primary purpose of the Board is to ensure the water board's compliance with the Act, and to promote and ensure that the water board's business plan and policy statement are implemented (section 38(1)).

In terms of section 32(b) water boards are required to enter into service provision agreements when performing its primary or other activities. These agreements are also intended to serve as regulatory mechanism, to regulate the relationship between the institutions.

In terms of the Public Finance Management Act, (PFMA) 1999, (Act 1 of 1999), Water Boards, as Schedule 3, Public Entities, must submit audited financial statements to National Treasury for each financial year in accordance with the generally accepted accounting practice. Further, in terms of the PFMA the accounting authority is the Board and its fiduciary responsibilities are spelt out in section 50 and 51 of the PFMA.

Water Boards have been set up to be financially independent institutions. In terms of section 34(1) of the Water Services Act water boards must strive, amongst others, to be financially viable. In this respect, they are required to repay and service their debts; recover their capital, operational and maintenance costs; make reasonable provision for depreciation of assets; recover the costs associated with the repayment of capital from revenues over time; and make reasonable provision for future capital requirements and expansions.

The impact of their financial performance on the Department has therefore been limited. Apart from providing seed funding for some of the newly formed water boards and operating subsidies, where they have undertaken specific functions on behalf of the Department, the Department has only in exceptional circumstances had to provide financial assistance to some of the water boards.

## 5.3 Other entities

### 5.3.1 Komati River Basin Water Authority:

The Komati River Basin Development Project is a joint development between South Africa and Swaziland in terms of the treaty on the development and utilisation of the water resources of the Komati River basin, ratified in 1992. The purpose of the project is to promote rural development and alleviate poverty in the lower Komati Valley by increasing the productivity of the land through irrigated agriculture. In terms of the treaty, the Komati River Basin Water Authority (KOBWA) was established as a special purpose vehicle charged with managing and financing the project. The main focus of the project was the construction of the Driekoppies Dam in South Africa and the Maguga Dam in Swaziland. Both have been completed.



In terms of the treaty, funding of project costs is guaranteed by the South African government and the Department is responsible for payment of these costs.

### 5.3.2 National Forest Recreation and Access Trust:

The object of the National Forest Recreation and Access Trust is to promote access to and the use of forests for recreation, education, culture or spiritual fulfillment. In terms of section 41(2) of the National Forests Act (84 of 1998), the Minister is the sole trustee of the Trust. The only source of revenue for the Trust is interest earnings.

## 6 Organisations to which transfer payments have been made

	R'000
Conditional grant transfers to Municipalities Amatole	451
Buffalo City	1
Capricorn	16
Chris Hani	1 172
Makana	1
Makado	161
Mbombela	16
OR Thambo	2 641
ThabaChwebu	38
Tswane	94
Ukhahlamba	896
Umlalazi	4
East Free State Dist Council	7
Ethekwini Municipality	29
Umgungundlovu Dist Municipality	60
Ugu Dist Municipality	2
Capricorn	158

	R'000
Umzinyathi Dist Municipality	10
Indlovu Reg Council	35
Vhembe	269
Waterberg	5
Ehlanzeni	94
Gert Sibande	1
Cape Winelands	14
Frances Baard	54
Karoo	1
Uthukela Reg Council South	1
Zululand Dist Municipality	14
Kei Dist Council	108
Bojanala	1
Bophirima	2
Nelson Mandela Metropolitan Mun	2
Sekhukhune Cross Bound	7
Umkhanyakude Dist Municipality	62
Metsweding Dist Municipality	6
Cape Metropolitan	54
Eden	44
Alfred Nzo	79
Amatole	122
Cacadu	22
Chris Hani	117
Greater East Rand Metro	35
Lower Orange Dist Council	8
Tshwane Metropolitan Municipality	715
Southern Dist Council	17
Motheo	17
Northern Free State	1

## Departmental Agencies and Accounts

Gluckstadt IB	451
Impala WUA	7 211
Kalahari East	38 098
Blyde River 800	1 076
Lower Blyde WUA	18 137
Kanon Eiland	6 056
Nkangala	1
Overberg	1
Vehicle Licences	1 258

## Other Transfers

Equipment Trading Account	2 535
Water Trading Account	1 534 678
SAFCOL	31 900
IEC.INFRA (Water & Sanitation)	14 916
YORKCOR	37 438
Grand Total	1 735 067

## Reasons for Transfer Payments

### Grants to Municipalities:

Transfer payments are made to municipalities in accordance with the exit strategy of the Community Water and Sanitation Programme (CWSS-P) from the department to Local Government (LG) as detailed in the Division of Revenue Act, i.e. the framework for conditional grants to local authorities for the department capital projects. Transfer payments are made to ensure that LG have funds to implement those projects identified in Water Service Development Plans (WSDPs).

The ultimate endeavour of transfer payments is to ensure that sustainable water and sanitation infrastructure is delivered to rural communities.

## Accountability Arrangements

Funds are transferred on the basis of a "Transfer Agreement" contract between the department and the receiving institution. The transfer agreement process is lengthy and time consuming, but the final outcome ensures the effective and sustainable delivery of infrastructure in accordance with the required accountability aspects of the Public Finance Management Act.

This process includes (and not limited to) the following accountability aspects of project implementation:

- An approved feasibility and Business Plan;
- Council resolution that the infrastructure and/or monies will be transferred for sustainable water and sanitation development in rural communities;
- An effective workplan that constitutes:
  - a feasible implementation plan; and
  - a feasible operations plan;
- A clear time schedule detailing when funds will be spent and infrastructure will be delivered; and
- Sustainability, revenue and longevity processes.

## Departmental Agencies and Accounts:

### Gluckstadt Irrigation Board

The Gluckstadt IB defaulted on a loan to Land Bank, guaranteed by DWAF as well as a state loan granted in the 80's. The Land Bank obtained judgement against the Irrigation Board but was unable to recover anything, as the board had no assets. Land Bank demanded the final settlement payment from DWAF.

### Impala Water User Association (WUA)

DWAF had to pay shortfalls in instalments repayments as a result of some members of Impala WUA refusing to pay their instalments on a loan taken from Rand Merchant Bank. The loan is guaranteed by DWAF for an amount of R150 million. The basis of their refusal is a challenge to the National Water Act. The case will be heard in the

Court of Appeal during November 2005. Also included in the above amount paid is an amount of R553 104 which is DWAF contribution to cover its agreed portion of the legal cost for the various court actions.

#### Kalahari East Water User Association (WUA)

Kalahari East WUA obtained a Land Bank Loan in 1989 amounting to R77,4 million guaranteed by the Government. The above portion of the loan had to be written off for which National Treasury made funds available.

#### Blyde River 800

Payments of interest on the portion of the Land Bank loan allocated to Blyde 800 project which will provide opportunities for high value irrigation farming for historically disadvantaged farmers.

#### Lower Blyde River Water User Association (WUA)

The WUA defaulted on a loan taken from Land Bank, guaranteed by the Government. In order to prevent interest accumulating at some R250 000 per month, it was decided to settle the loan but to continue with legal action against the WUA to recover the outstanding debt.

#### Kanon Eiland Water User Association (WUA)

Judgement was granted against the WUA for the settlement of a debt of R12 million, guaranteed by the Government. The judgement could only realise half the amount owed and DWAF was asked to honour the balance in terms of the guarantee.

#### Other transfers:

##### Trading Accounts

Both trading accounts, namely, the Water Trading Account and the Equipment Trading Account are operating within the department and any losses must be made good from the Exchequer.

#### SAFCOL

The department entered into an agreement to pay SAFCOL an annual subsidy for the period 2002/03 until 2005/06. The payments were made to cover costs associated with conversion of plantations to other land use in the Southern and Western Cape as well as phasing out of loss making operations.

SAFCOL has finalised the transfer of ownership of the plantations in the Southern and Western Cape and the Stutterheim and Hogsback area in the Eastern Cape to private entities. The Department has entered into long term leases with both private entities MTO Forestry (Pty) Ltd and Amatola Forestry (Pty) Ltd. Funding associated with land conversion in the Southern and Western has also been partially resolved between the department and the receiving agencies. The Department has entered into a two year delegation agreement with SAFCOL for the management of the areas not included in the MTO lease.

#### IEC.INFRA

The amount was spend by the Department for the IEC water and sanitation project in preparation for the April 2004 national elections.

#### YORKCOR

The Department cancelled the Yorkor evergreen contract in order to implement forest restructuring. In terms of the contract, compensation is payable when the cancellation clause is invoked. The Department and Yorkor were unable to agree on compensation and it was referred for arbitration. The ruling was in favour of Yorkor and the Department was obliged to pay. Approximately one third of this is reserved for compensation of workers who were affected.

## 7 Public/private partnerships (PPP)

Work has been done on establishing value added industries through a public private partnership for the harvesting of invasive alien plants in order to recover some of the costs of clearing, while at the same time creating jobs over and above the ones created by the

clearing operations. The project is aimed at the clearing of invasive alien plants from the coastal plains of the Eastern and Western Cape.

## 8 Corporate governance arrangements

- Risk management approach

The risk assessment process has been concluded and risks facing the department have been identified. This was achieved by holding discussions with the Branch Managers within the department. Risk database profiles which were developed were also updated. The respective Branch Managers have the responsibility to manage the risk areas relevant to their areas of work. The regular updating of the risk assessment process is facilitated by the Directorate: Internal Audit.

- Fraud prevention policies

The fraud prevention policy which is a key element of effective and efficient internal control systems has been developed and is being implemented in the Department.

- Effectiveness of internal audit and audit committee

The Directorate: Internal Audit conducts its activities in accordance with the standards as laid down by the Institute of Internal Auditors. It provides assurance to management that internal controls are effective and that the identified risks are properly managed. The Audit Committee is functioning effectively. Members of the Audit Committee were appointed in terms of the Public Finance Management Act and are discharging their duties in accordance with the prescribed policies.

- Other governance structures, including management processes to minimise conflict of interest

Other committees such as the Management Committee (MANCO), Executive Committee (EXCO), Departmental Control Committee

(DCC), etc are functioning effectively and are achieving their objectives.

The Department has sound management structures in place to deal with flow of information and issues of conflict of interest.

- Implementation of the code of conduct:

The code of conduct has been developed and procedures are in place to deal with cases where irregularities occur.

- Safety, health and environment issues facing the organisation.

Issues of Health and Safety in the Department are being co-ordinated by a formally established structure and reports quarterly.

## 9 Discontinued activities/activities to be discontinued

The Department has been engaged in funding and operating community water supply and sanitation since 1994 in the Reconstruction and Development Programme and Community Water Supply and Sanitation programmes.

The responsibility for direct funding and operation is being transferred to local government and the Department will in future focus on monitoring, support in technical assistance and capacity building, regulation and policy.

The Department will continue over the next two years to complete those contractually committed projects which the department or its agents, other than local government are implementing using Medium Term Expenditure Framework and donor funds. The major portion of the department's Medium Term Expenditure Framework allocation for the Community Water Supply and Sanitation programmes has been reallocated to the MIG programme, which is managed by Department of Provincial and Local Government with effect from 1 April 2004. The Department of Provincial and Local Government and MIG have undertaken to honour contractually committed projects that were under the Community Water Supply

and Sanitation programmes, with the balance of funds going into an “uncommitted” amount which will be dealt with by Department of Provincial and Local Government.

The responsibility for the management of a total of 97 000 hectares of indigenous forests and forest land have been delegated to SANParks in the Knysna and Tsitsikamma area in terms of a 10 year delegation agreement.

The Department is in the process of transferring irrigation government water schemes to water user associations. Once this process is complete the Department will no longer be responsible for managing such schemes but will retain oversight over their operation where the WUA's are managing state-owned infrastructure.

## 10 New/proposed activities

Since, in terms of policy, the management and development of the national water infrastructure for economic purposes should be self-funding and the funding and planning of such activities occurs over longer periods than are covered by the Medium Term Expenditure Framework, proposals are being developed for the establishment of a National Water Infrastructure Agency which would be equipped to undertake these responsibilities under the supervision of the Department.

New and proposed activities in water resource management include the establishment of Catchment Management Agencies (CMAs) and the transfer of staff and functions to CMAs as they are established. The Nkomati CMA is the first to which staff and functions will be transferred. In addition, the registration and charging of waste dischargers in terms of the revised pricing strategy and the development of a classification system for significant water resources are underway.

The Department intends to strengthen the Water Services Sector Wide Approach and align its local government support activities with 'Project Consolidate'. Provincial Plans for water services support will be prepared linked to IDP/WSDP's and PGDS. The Department will monitor the performance of municipalities in meeting the delivery targets and providing effective and efficient water services in a sustainable manner.

The Department continues to support SADC capacity building initiatives and support the roll out of training programme for Water Sector personnel, Capacity Building of NGOs and the Best Practice Promotion in the Sector.

## 11 Events after the reporting date

None.

## 12 Progress with financial management improvement

Since 1 April 2003 the Financial Management System (FMS) was replaced by the Basic Accounting System (BAS). The BAS has been fully implemented in the Department and training has been offered to officials on the use of the new system. Some difficulties have been experienced in the application of the transversal systems to the Department's specific business needs. The Department is therefore implementing new systems for the Management of the Trading Accounts to enable reporting in accordance with GAAP.

The Department regularly reports and monitors its financial position through the Early Warning Reports and the Quarterly Reports. The Executive Authority is also monthly informed about the financial position.

## 13 Performance information

The performance information is outlined in paragraph 4.4 of the annual report.

### Approval

The annual financial statements have been approved by the Accounting Officer.



A.M. Muller  
DIRECTOR-GENERAL  
31 May 2005





## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF VOTE 34 – DEPARTMENT OF WATER AFFAIRS AND FORESTRY FOR THE YEAR ENDED 31 MARCH 2005

### 1 AUDIT ASSIGNMENT

The financial statements as set out on pages 144 to 192 for the year ended 31 March 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 40(1)(c) of the Public Finance Management Act, 1999 (Act No. 1 of 1999).

These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

### 2 NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

### 3 AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Department of Water Affairs and Forestry at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

### 4 EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

#### 4.1 Asset and inventory management

Due to the lack of an appropriate, documented and approved policy and procedure framework, an asset management policy as well as an updated asset register was not in place for the year under review. The following control weaknesses were identified:

- Stock counts were not done at certain regional offices.
- Some ledger cards contained zero opening balances.
- The existence of assets could not be verified.
- Not all assets were bar-coded.

## 4.2 Internal controls

Additional instances where internal control weaknesses existed, due to the lack of an appropriate, documented and approved policy and procedure framework, related to the following:

- The basis of allocation of transactions to the Water Trading Account was not defined, resulting in uncertainty regarding the accurate allocation of expenses incurred by the department on behalf of the Water Trading Account,
- A policy document with regard to the supply chain management system had not yet been compiled as required by the National Treasury, as a result of poor planning in the department.

## 4.3 Value-for-money audits

### 4.3.1 Management of fleet services

The department outsourced the fleet services on which it spent R201 million during the 2004-05 financial year. This contract contains penalty clauses which could result in fruitless expenditure if not fully observed. The department did not have an appropriate, documented and approved policy and procedure framework to ensure that adequate measures were in place in order to spend funds in the most economical and efficient manner. These are some of the instances where the lack of policy resulted in fruitless expenditure:

- Bookings were not cancelled in good time, with the result that the department paid for services that were not rendered.
- Vehicles hired for extended periods were delivered and collected outside core business hours and/or outside defined service areas, resulting in penalties on the monthly rental.

### 4.3.2 Outsourcing of information system services

In addition to a fixed-term contract for the outsourcing of the IT department, the following out-of-scope assignments were awarded without following departmental policies and procedures:

- Expenditure of R1,78 million was incurred without the approval of the departmental control committee.

- Another contract of R2,25 million was awarded, but the tender committee did not have the relevant technical expertise and two members did not declare a conflict of interest.

## 4.4 Information systems audit of the network security

An audit of the network security was completed in March 2005 and the findings were brought to the attention of the director-general.

The security of IT resources at the department was found to be inadequate. This was due to the lack of an appropriate policy and procedure framework.

## 4.5 Late submission of audit report

In terms of section 40(2) of the Public Finance Management Act, Act No. 1 of 1999 (as amended), the Auditor-General must submit an audit report on the financial statements received within two months of receipt of the statements. Due to the additional internal quality review procedures, implemented for the first time for this financial year by my office, I was unable to submit the audit report within the prescribed timeframe.

## 5 APPRECIATION

The assistance rendered by the staff of the department during the audit is sincerely appreciated.

*S. A. Fakie*

S A Fakie  
Auditor-General  
Pretoria  
August 005

## Accounting Policies for the year ended 31 March 2005

The Annual Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the Annual Financial Statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), the Treasury Regulations for Departments and Constitutional Institutions issued in terms of the Act and the Division of Revenue Act, Act 5 of 2004. The following issued, but not yet effective Standards of Generally Recognised Accounting Practice have not been fully complied with in the Annual Financial Statements: GRAP 1, 2 and 3.

### 1 Basis of preparation

The Annual Financial Statements have been prepared on a modified cash basis of accounting, except where stated otherwise. The modified cash basis constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid. Under the accrual basis of accounting transactions and other events are recognised when incurred and not when cash is received or paid.

### 2 Revenue

#### Appropriated funds

Voted funds are the amounts appropriated to a department in accordance with the final budget known as the Adjusted Estimates of National/Provincial Expenditure. Unexpended voted funds are surrendered to the National/Provincial Revenue Fund, unless otherwise stated.

#### Departmental revenue

##### Tax revenue

A tax receipt is defined as compulsory, irrecoverable revenue collected by entities. Tax receipts are recognised as revenue in the statement of financial performance on receipt of the funds.

##### Sale of goods and services other than capital assets

This comprises the proceeds from the sale of goods and/or services produced by the entity. Revenue is recognised in the statement of financial performance on receipt of the funds.

##### Fines, penalties and forfeits

Fines, penalties and forfeits are compulsory receipts imposed by court or quasi-judicial body. Revenue is recognised in the statement of financial performance on receipt of the funds.

##### Interest, dividends and rent on land

Interest and dividends received are recognised upon receipt of the funds, and no provision is made for interest or dividends receivable from the last receipt date to the end of the reporting period. They are recognised as revenue in the Statement of Financial Performance of the department and then transferred to the National/Provincial Revenue Fund.

Revenue received from the rent of land is recognised in the statement of financial performance on receipt of the funds.

##### Sale of capital assets

The proceeds from the sale of capital assets is recognised as revenue in the statement of financial performance on receipt of the funds.

##### Financial transactions in assets and liabilities

Repayments of loans and advances previously extended to employees and public corporations for policy purposes are recognised as